

Health Fund Mergers— Are They Feasible?

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OF EMPLOYEE BENEFIT PLANS 

Short Answer...



Today's Discussion

- Why do fund mergers happen?
- Process, the steps to a merger
 - Before
 - During
 - After
- Pitfalls to avoid
- Key takeaways



Why Do Fund Mergers Happen?

Reasons for Fund Mergers

- Financial reasons
 - Better benefits/member experience for a better price
 - One fund is struggling to stay afloat
 - “Bigger is better,” buying power matters
- Strategic reasons
 - Multiple locals in one trade unite
 - Groups of differing trades unite
 - Geographic reasons
- The International says so



Steps to a Successful Merger

Process—Considerations Before

- Political
 - Impact to the Board of Trustees—Representation
 - Messaging to membership
 - Merging fund
 - Absorbing fund
 - Vendor/professional relationships

Process—Considerations Before

- Financial
 - Cost of coverage (hourly, weekly, monthly rates)
 - Benefits comparison
 - Asset match, level of reserve required = buy in
 - Excess assets or lack of assets
 - Smoothing the financial integration

Process—Considerations Before

- Financial
 - Cost of coverage (hourly, weekly, monthly rates)
 - Underwriting of merging group into absorbing fund—
Estimating the cost of the merging group based on absorbing fund benefits
 - Geographic adjustments
 - Demographic adjustment (age, gender, retiree volume/subsidy)
 - Benefit adjustments
 - Eligibility adjustment
 - Volume of work adjustment
 - Uniform rate or differing rates per group

Process—Considerations Before

- Financial
 - Benefit level comparison (grandfathering of certain benefits)
 - Vendor comparison (coverage, rules and disruption)

	Active Group 1	Active Group 2	Pre-Medicare Retirees	Medicare Retirees
• Medical	X	X	X	X
• Rx	X	X	X	X
• Dental	X	X	X	X
• Vision	X	X	X	X
• Disability	X	X	X	X
• Administration	X	X	X	X
• Other	X	X	X	X

Process—Considerations Before

- Financial
 - Asset match, level of reserve required = buy in
 - Impact on current reserves for both funds
 - Uniform measure of reserves
 - Merging fund plan metrics
 - Measured in months, cost per member or other uniform measure

Process—Considerations Before

- Financial
 - Excess assets or lack of assets
 - Agreement on measurement
 - Solution for both
 - Tracking of excess/shortfall key
 - Smoothing the financial integration



Process—Considerations Before

- Eligibility
 - Active
 - Transition from current new
 - Alignment of work months and eligibility months
 - Transition of eligibility banks
 - Health Reimbursement Amount transition

Work Quarter	Quarter of Coverage
January, February, March	July, August, September
April, May June	October, November, December
July, August, September	January, February, March
October, November, December	April, May June



Eligibility (Work) Month	→	Benefit Month	Eligibility (Work) Month	→	Benefit Month
November		January	May		July
December		February	June		August
January		March	July		September
February		April	August		October
March		May	September		November
April		June	October		December

Process—Considerations Before

- Eligibility
 - Retiree eligibility
 - Past service
 - Retiree self pay amounts
 - Transition
 - Education



Process—Considerations During

- Education/communication is key
 - Leadership buy-in (both labor and management)
 - Membership meetings to answer any/all questions
 - Opportunity for both active and retiree questions



Process—Considerations During

- Information sharing between groups
 - Historical information (appeals, agreements, etc.)
 - Transition of member information
 - Vendor notifications (terminations, new membership)
 - Fiduciary Liability Insurance transition
 - Call history



Process—Considerations During

- Legal documents
 - Merger Agreement
 - Transition of vendor partnerships
 - Transition of assets



Process—Considerations Post Merger

- Deliver on ALL promises
- Plan for increased day one volume
 - Vendors, especially PBM
 - Call center
- Mistakes will happen!!! Identify early, correct all and learn from experience



Pitfalls to Avoid

Pitfalls

- Merging too fast
- Being too rigid → Try harder
- Too little communication
- Getting unbiased advice



Key Takeaways

Key Takeaways

- Health fund mergers are feasible
- Have a plan/process with ample time
 - Follow a checklist
- Be patient; stops and starts are common
- Driving factor is doing what is best for members and their families

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